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TAGS: ECON EPET ENRG EINV IZ
SUBJECT: PRT SALAH AD DIN: MOBILE GASOLINE STATIONS
TRANSFORMING THE MARKET

Classified By: PRT Salah ad-Din Team Leader Richard Bell, reasons 1.4(d)
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This is a PRT Salah ad Din reporting cable.

¶1. (C) SUMMARY: The Salah al-Din (SaD) Provincial Investment Commission (PIC) has successfully negotiated a deal that has created over a hundred privately owned, mobile gasoline stations. The stations, which comprise 10,000 liter containerized units equipped with fuel pumps, are already visible along some of the major highways in SaD and can be deployed at any of 200 locations for which the PIC has obtained land allocations from the ministries of Municipalities, Finance and Agriculture. In the first few months, the stations have reduced the price per liter of gasoline by over 33 percent while offering a higher quality product (imported from Turkey) than government stations do. While the price offered by mobile stations remains greater than the subsidized price of fuel, many SaD residents have been willing to pay the premium for the convenience and higher quality offered by the stations. END SUMMARY.

PIC Facilitates Investment in Fuel Stations

¶2. (C) The Salah ad-Din (SaD) Provincial Investment Commission (PIC) identified the consumer fuel market as a priority area for investment in November 2008. Currently, most SaD residents purchase gasoline from inefficient state-owned outlets, where fuel is subsidized but often unavailable, or from informal roadside outlets selling fuel from plastic containers, which often increase their profits by diluting fuel with other liquids. The PIC responded to this need by identifying investors, who could pay the cost of at least one mobile station, and securing land allocations from the ministries of Municipalities, Finance and Agriculture. The PIC then identified a supplier of quality refined product from Turkey. (COMMENT: The PIC has assured us that the source of the fuel is entirely legal, but declined to provide detailed information on the origin of the fuel or provide us with a complete list of the investors. END COMMENT.) After the land allocations were approved in December, the mobile stations immediately began appearing along major roadways in SaD. To date, 122 of the stations have been established.

Market Effects

¶3. (U) So far, the establishment of the mobile stations is producing textbook free-market outcomes, including a reduction in the price per liter, improvements in fuel quality, and efforts to add value with the types of associated motorist services available at service stations in other countries. Initially, the mobile stations offered the fuel at 900 ID/liter (U.S. 78 cents), but the price has now dropped as low as 600 ID/liter (U.S. 52 cents) in some

locations. (NOTE: In SaD, the subsidized price for gasoline at government run stations for January and February is 450 ID/liter (U.S. 39 cents), but many of the stations unofficially charge a premium of 20 percent or more when demand outstrips supply. Exchange rate: ID 1147/\$1.00. END NOTE.) Several PRT contacts have commented that the quality of the gasoline available at the mobile stations is superior to that offered at other stations and more convenient, since there are no lines. Likewise, we have observed that many of the stations are now offering services such as oil changes and tire patching.

Mobility Provides Security, Flexibility

¶4. (C) PIC Deputy Commissioner Tami Saab Mosheraf told PRT ECON Chief that the ability to move the mobile stations has QECON Chief that the ability to move the mobile stations has several benefits for investors. First, the cost of a containerized unit is very low (less than USD 10,000) and the station owners have not been required to pay rent to the ministries that own the land. Second, the stations can be deployed by the owners wherever market conditions are most favorable or security considerations require. (COMMENT: The PRT believes that the ability to move the fuel stations will help mitigate the type of severe fuel shortages that have periodically occurred in SaD as a result of corruption and inefficiency in the fuel distribution system. END COMMENT.)

Mixed Reaction From Local Officials

¶5. (S) Bayji Oil Refinery Director General Ali Obeidi told
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PRT officers on January 28 that the stations can serve a valuable purpose by helping to rationalize local fuel markets. He added that the gasoline at the mobile stations is of a higher octane than that sold at government fuel stations, and he believes that is the reason Iraqis are happy to pay a premium for it. Conversely, Bayji mayor Hussein Ahmad Mahjoob al-Qaisy criticized PIC Chairman Jowhar Hamad al-Fahal at a February 14 meeting for establishing stations in his municipality without the "permission" of the local government. The PIC Chairman responded that the stations were established on national land and therefore the approval of the municipal government is not a requirement.

¶6. (S) COMMENT: Municipal leaders in Bayji have long voiced frustration about not being included in development planning and decision-making at the provincial and national levels of government. We are also aware, however, of unconfirmed reports that the Bayji mayor has been involved in corruption schemes involving government fuel allocations, which could also explain his apparent hostility to an investment initiative that could reduce the incentives for arbitrage.
END COMMENT.

Comment

¶7. (C) The unavailability of fuel in many areas of SaD has been a hindrance to development and a potential source of unrest. The PIC has put forward a creative solution that mobilizes local sources of capital to meet an economic need. While it is possible that the mobile stations are being used to unload black market or stolen fuel, we have so far not heard any information to that effect. The PRT believes that the ultimate solution to the problem of fuel distribution in SaD will be a transition to market distribution systems, such as the PIC's mobile fuel stations, that reduce the incentive for black market activities and official graft.

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